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S. C. PUBLIC SERVICE COMMISSION  
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**BELLSOUTH TELECOMMUNICATIONS, INC.**  
**DIRECT TESTIMONY OF WALTER S. REID**

**BEFORE THE**  
**PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA**  
**DOCKET NO. 98-378-C**  
**SEPTEMBER 24, 1998**

S. C. PUBLIC SERVICE COMMISSION  
RECEIVED  
SEP 28 1998  
UTILITIES DEPARTMENT

9 Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND  
10 POSITION WITH BELLSOUTH TELECOMMUNICATIONS, INC.

12 A.. My name is Walter S. Reid and my business address is 675 West  
13 Peachtree Street, N. E., Atlanta, Georgia. My position is Senior  
14 Director for the Finance Department of BellSouth Telecommunications,  
15 Inc. (hereinafter referred to as "BellSouth" or "the Company").

17 Q. BRIEFLY OUTLINE YOUR EDUCATIONAL BACKGROUND AND  
18 BUSINESS EXPERIENCE IN THE TELECOMMUNICATIONS  
19 INDUSTRY.

21 A. I received bachelor and master of science degrees in industrial  
22 engineering in 1969 and 1971, respectively, from the Georgia  
23 Institute of Technology. I am a Certified Public Accountant (CPA)  
24 licensed in the state of Georgia, and am a member of the American  
25 Institute of CPAs. I was employed by BellSouth in November,

1 1971, as a management trainee in the Comptrollers Department in  
2 Jacksonville, Florida. Since that time, I have held various positions  
3 of increasing responsibility in the areas of budget and forecast  
4 preparation, cost accounting, separations, and regulatory matters. I  
5 was transferred to my current position at Company Headquarters in  
6 October, 1987. Overall, I have over 26 years experience dealing  
7 with the financial issues of the Company.

8

9 Q. WHAT ARE YOUR CURRENT RESPONSIBILITIES?

10

11 A. I am responsible for the preparation and analysis of the Company's  
12 financial results, the provision of accounting and cost information  
13 requested in proceedings before state regulatory commissions and  
14 the Federal Communications Commission ("FCC"), and the  
15 coordination of other regulatory activities.

16

17 Q. HAVE YOU TESTIFIED PREVIOUSLY REGARDING FINANCIAL  
18 ISSUES IN STATE REGULATORY PROCEEDINGS?

19

20 A. Yes. I have testified in regulatory proceedings before the Public  
21 Service Commission of South Carolina ("the Commission"), as well  
22 as in numerous proceedings before the Commissions in Alabama,  
23 Georgia, Florida, North Carolina, Kentucky, Mississippi, and  
24 Tennessee. Specifically, related to the resale area, I testified in  
25 South Carolina Docket No. 96-358-C, in which I presented

1 BellSouth's methodology for calculating an overall resale discount.  
2 In its Order No. 97-189 of that docket, the Commission accepted  
3 BellSouth's methodology with some modifications.  
4

5 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS  
6 PROCEEDING?  
7

8 A. The purpose of my testimony in this proceeding is to present the  
9 methodology and results of BellSouth's study that calculates the  
10 resale discount for Contract Service Arrangements ("CSAs") in  
11 South Carolina. In this regard, I have attached Exhibit WSR-1 which  
12 demonstrates the calculation of BellSouth's proposed CSA resale  
13 discount of 8.98% for South Carolina. I have also attached as  
14 Exhibit WSR-2, the workpapers which underlie BellSouth's study.  
15

16 Q. HOW IS YOUR TESTIMONY ORGANIZED?  
17

18 A. My testimony begins with an identification of the requirements  
19 included in the Telecommunications Act of 1996 (hereinafter  
20 referred to as "the Act") related to the wholesale pricing of retail  
21 services made available for resale. Next, I discuss the FCC's  
22 requirements related to CSAs as documented in its Memorandum  
23 Opinion and Order (FCC 97-418) on BellSouth's Application to  
24 provide in-region interLATA services in South Carolina. The subject  
25 of the testimony then focuses on a separate CSA discount, the

1 the customer. The expense for the activity of answering the calls  
2 from the customers are therefore an avoided cost.

3

4 Q. WHAT ACTION HAS THE COMMISSION TAKEN TO IMPLEMENT  
5 THIS PROVISION OF THE ACT?

6

7 A. First, the Commission established a general wholesale discount of  
8 14.8% in Docket No. 96-358-C. Second, in the same docket, the  
9 Commission determined that CSAs should not receive a further  
10 discount below the CSA contract rate. Finally, in Docket No. 97-  
11 101-C, the Commission approved BellSouth's Statement of  
12 Generally Available Terms & Conditions ("SGAT") which specifies  
13 the appropriate terms and conditions of resale. Following approval  
14 of its SGAT, BellSouth filed an application with the FCC for  
15 authority to provide in-region interLATA service.

16

17 Q. WHAT ACTION DID THE FCC TAKE WITH RESPECT TO  
18 BELLSOUTH'S APPLICATION?

19

20 A. In its Memorandum Opinion and Order 97-418, released on  
21 December 24, 1997, the FCC denied that application. One of the  
22 reasons cited for its denial was BellSouth's failure to offer CSAs for  
23 resale at a wholesale discount.

24

25

1 Q. DID THE FCC STATE THAT CSAs MUST BE AVAILABLE FOR  
2 RESALE AT BELL SOUTH'S GENERAL DISCOUNT OF 14.8%?

3

4 A. No. The FCC indicated that it believed "it would be feasible, and  
5 sufficiently accurate to calculate a single discount rate that would  
6 apply to all CSAs." (FCC 97-418 paragraph 220.) What the FCC  
7 objected to was an effective general exemption of CSAs from the  
8 wholesale discount requirement.

9

10 Q. WHY DO CSAs REQUIRE AN AVOIDED COST DISCOUNT  
11 SEPARATE FROM THE AVOIDED COST DISCOUNT OF 14.8%  
12 ALREADY APPROVED BY THE COMMISSION?

13

14 A. The setting of a resale discount is governed by the requirements of  
15 the Act, which state that BellSouth shall resell its services at a  
16 discount that reflects the costs it will avoid as the result of resale.  
17 A separate CSA discount is the result of our study because the  
18 costs avoided as the result of resale of individualized custom-  
19 tailored CSAs are substantially less than the costs avoided as the  
20 result of resale of general tariffed services, and in addition, the price  
21 under which CSAs are offered already includes a discount off of  
22 tariff service rates.

23

24

25

1 Q. PLEASE DESCRIBE BELL SOUTH'S CSA RESALE DISCOUNT  
2 STUDY.

3

4 A. The CSA study consists of three pages summarizing the  
5 methodology which BellSouth used to complete the study and the  
6 CSA study itself which includes eleven pages of worksheets, and is  
7 attached as Exhibit WSR-2. Because the methodology is a  
8 summary, I will elaborate on the reasoning which BellSouth utilized  
9 to complete the CSA study. The workpapers include the calculation  
10 of the Commission approved discount of 14.8%, the calculation of  
11 the Company's CSA discount of 8.98%, and the analysis of the  
12 accounts that include avoided costs as they relate to CSAs.

13

14 Q. IS THE METHODOLOGY FOR IDENTIFYING CSA SPECIFIC  
15 AVOIDED COSTS SIMILAR TO THE METHODOLOGY USED IN THE  
16 ORIGINAL RESALE STUDY?

17

18 A. Yes. The methodology is similar to the original resale study but has  
19 some differences due to the fact that CSAs have attributes that are  
20 distinctly different from general tariffed services. Similar to the  
21 previous resale study, BellSouth analyzed functional activity costs  
22 underlying amounts charged to specific accounts as listed in the  
23 Uniform System of Accounts. Because a CSA is a contract created  
24 for a specific customer, all the functional activities performed up to  
25 the point of sale are necessary to create the CSA. This would

1 include many product management, sales or customer services  
2 activities. Therefore, the point of sale was used as the reference  
3 point for determining avoided versus non-avoided costs. If an  
4 activity is performed prior to the sale, then its cost is considered not  
5 avoided. If an activity is performed after the sale of the CSA and  
6 would not be performed by BellSouth if the CSA is resold, then the  
7 cost associated with the activity is considered avoided. For CSAs,  
8 post-sale costs are the only costs which logically could be avoided.  
9 Another way of looking at this situation is that in order for a reseller  
10 to have the ability to resell a CSA, BellSouth had to first negotiate  
11 and sell retail services to the specific end user customer.

12  
13 Q. PLEASE EXPLAIN THE SOURCE OF THE DATA USED IN  
14 BELL SOUTH'S CSA STUDY.

15  
16 A. For data analysis purposes in this CSA study, the Company utilized  
17 the same cost data which was used in determining the overall resale  
18 discount in South Carolina Docket No. 96-358-C. In general, costs  
19 that were treated as avoided in determining the overall resale  
20 discount study were further analyzed in this CSA study to  
21 determine if they were either pre-sale or post-sale in nature. In  
22 most instances, the function level cost detail allowed for the  
23 identification of costs as either pre-sale or post-sale. However, in  
24 the case of sales expense, additional information had to be secured  
25 to make this determination. In those few instances where there

1 was not clear identification of a function as pre-sale or post-sale,  
2 these costs were allocated to pre-sale and post-sale on a basis  
3 unique for the activity. Support and supervision costs were  
4 allocated on the basis of the pre-sale and post-sale ratio. In the  
5 case of advertising, because this activity occurs prior to a sale, all  
6 advertising costs are treated as pre-sale and thus not avoided.

7  
8 Q. PLEASE EXPLAIN THE METHODOLOGY USED IN CALCULATING A  
9 WHOLESALE DISCOUNT FOR CSAs?

10  
11 A. In Docket No. 96-358-C, the Commission adopted a 14.8% overall  
12 resale discount. Attached as Exhibit WSR-1, page 1 of 3, is a  
13 summary of the calculation of the 14.8% resale discount as ordered  
14 by this Commission. This calculation was the starting point for  
15 BellSouth's CSA resale discount study.

16  
17 The next step in BellSouth's calculation of a CSA resale discount  
18 was to analyze the expenses for tariff services in general to  
19 determine if these expenses should also be treated as avoided for  
20 CSAs. Because of the unique nature of CSAs, certain costs that are  
21 avoided as the result of resale of tariffed services are not avoided as  
22 the result of resale of CSAs. CSAs are a set of discounted tariffed  
23 products and services created as a result of a competitive response.  
24 The functions required to create a CSA have to be performed before  
25 the CSA can be resold by a CLEC. Each account was uniquely



1 reviewed to determine if it was a "pre-sale" or "post-sale" activity  
2 with respect to CSAs. Those functions and activities identified as  
3 "pre-sale" are treated as non-avoided in the CSA study because  
4 they must be incurred in order for the CSA to exist. Certain "post-  
5 sale" expenses are avoided when a CSA is resold. Exhibit WSR-1,  
6 page 2 of 3, summarizes the result of this analysis, and reflects a  
7 CSA discount rate of 8.98%.

8

9 Q. HOW DO CSAs DIFFER FROM GENERAL TARIFFED SERVICES?

10

11 A. Tariffed services are "on-the-shelf" offerings that are generally  
12 available to the customer at uniform rates, terms and conditions.  
13 By contrast CSAs are not generally available offerings, but are  
14 individualized contracts created on a case by case basis in response  
15 to particular competitive situations. BellSouth must incur certain  
16 "pre-sale" expenses in order to create each CSA and these  
17 expenses will not be avoided as the results of resale. Indeed, these  
18 "pre-sale" expenses have already been incurred when a CSA is  
19 resold.

20

21 Q. PLEASE DESCRIBE THE COSTS THAT WILL BE AVOIDED.

22

23 A. The costs that will be avoided are included in the expense  
24 categories for Product Management (Account 6611), Sales  
25 (Account 6612), and Customer Services (Account 6623). BellSouth

1 has separated costs in these expense accounts into pre-sale and  
2 post-sale functions and activities, and identified specific post-sales  
3 activities as avoided costs.

4  
5 Q. HOW DID THE COMPANY DETERMINE THE AMOUNT OF  
6 PRODUCT MANAGEMENT EXPENSE (ACCOUNT 6611) THAT WILL  
7 BE AVOIDED?

8  
9 A. In Docket No. 96-358-C, Order No. 97-189, the Commission  
10 treated costs for certain functional activities charged to this account  
11 as avoided costs. BellSouth analyzed each of these avoided  
12 functions based on job function codes underlying the account and  
13 classified them into "pre-sale" and "post-sale" activities. The result  
14 of BellSouth's analysis is that approximately \$191,000 of the  
15 expenses in these function codes are treated as avoided costs. The  
16 majority of the costs in this account are not avoided. These include  
17 expenses for such pre-sale activities as Product Service  
18 Management, Market Management, Market Research and  
19 Supervision and Support activities. These activities are necessary in  
20 order for the resold CSA to be created. Examples of the avoided  
21 costs for this account include customer retention, customer  
22 education, support and indirect supervision.

23  
24 Q. WHAT ARE THE SELLING EXPENSES (ACCOUNT 6612) THAT  
25 WILL BE AVOIDED?

- 1
- 2 A. In Docket No. 96-358-C, the Commission treated 90% of the costs
- 3 in this account as avoided costs. This treatment for sales expense
- 4 made no distinction between pre-sale and post-sale expenses
- 5 because this was not an issue in determining the overall resale
- 6 discount. However, for the calculation of a CSA resale discount, it
- 7 is important to separate costs between pre-sale and post-sale. In
- 8 order to accomplish this, BellSouth performed a study which
- 9 classified activities underlying this account as "pre-sale" and "post-
- 10 sale". BellSouth considered only complex business activities
- 11 because CSAs are only created for large businesses. BellSouth's
- 12 analysis of the complex business activities resulted in 34.75% of
- 13 the costs being classified as "post-sale" related. This percentage
- 14 was then multiplied by the total regulated expenses in this account.
- 15 The result is \$5,438,000 of avoided costs for this account.
- 16
- 17 Q. WHAT ARE THE CUSTOMER SERVICES (ACCOUNT 6623)
- 18 EXPENSES THAT WILL BE AVOIDED?
- 19
- 20 A. In Docket No. 96-358-C, the Commission treated 65% of the costs
- 21 in this account as avoided costs. For purposes of this study,
- 22 BellSouth did not revise the treatment of avoided cost for this
- 23 account.
- 24
- 25

1 Q. DID THE COMPANY IDENTIFY ANY PRODUCT ADVERTISING  
2 EXPENSE (ACCOUNT 6613) AS AVOIDED COSTS?

3

4 A. In Docket No. 96-358-C, the Commission treated costs in specific  
5 job function codes in this account as avoided costs in accordance  
6 with the study BellSouth filed in the docket. For this CSA study,  
7 BellSouth treats 100% of the expenses in this account as non-  
8 avoided due to the fact that product advertising is performed prior  
9 to the CSA's creation. Advertising is part of the effort involved to  
10 obtain the customer, therefore, a pre-sale function. Consequently,  
11 none of these expenses are avoided as the result of the resale of the  
12 CSA.

13

14 Q. DID THE COMPANY IDENTIFY ANY OVERHEAD EXPENSES AS  
15 AVOIDED COST?

16

17 A. The treatment of overhead expenses in BellSouth's CSA study  
18 differs from the treatment in the Commission's original study,  
19 where overheads (General Support, Executive & Planning, General  
20 and Administrative Costs) were identified and then allocated to the  
21 avoided category based on the relationship of direct avoided costs  
22 to total costs. In BellSouth's CSA study, BellSouth does not treat  
23 any overhead costs as avoided costs because the cost calculations  
24 used to price CSAs do not include any amounts for overhead.

25

1 Therefore, no overhead costs should be treated as avoided when  
2 CSAs are resold.

3

4 Q. HOW DID THE COMPANY TREAT OPERATOR SERVICES COSTS IN  
5 THE CSA STUDY?

6

7 A. For the CSA study, Operator Services, Accounts 6621 (Call  
8 Completion) and 6622 (Number Services), the Company is treating  
9 100% of the costs for call completion and number services as not  
10 avoidable. Although a CSA customer may switch to an alternative  
11 operator service provider for operator services, this would not result  
12 in an avoided cost. Rather, it would result in the loss of the entire  
13 line of operator service business for that customer. This does not  
14 represent a resale situation.

15

16 Q. HOW DID THE COMPANY TREAT UNCOLLECTIBLES IN ITS  
17 STUDY?

18

19 A. As with overheads, BellSouth's study differs from the treatment in  
20 the Commission original study, where uncollectible costs were  
21 treated similar to overheads. In BellSouth's CSA cost study, there  
22 are no uncollectible costs treated as avoided cost because the cost  
23 calculation used to price CSAs do not include uncollectibles.  
24 Therefore, no uncollectible cost should be treated as avoided when  
25 CSAs are resold. In addition, BellSouth would not expect to see

1 any significant difference between its uncollectible costs associated  
2 with large business customers who have CSAs versus CLECs who  
3 resell CSAs.

4  
5 Q. HOW DID THE COMPANY TREAT REVENUES IN ITS STUDY?

6  
7 A. Revenues used as the denominator in the discount calculation are  
8 also treated somewhat differently in BellSouth's CSA resale study.  
9 The original study included local service revenues and long distance  
10 network revenues less public telephone revenues. In this study, the  
11 total revenues were adjusted by deducting CSA revenues,  
12 discounting the remainder by the average CSA discount, and then  
13 adding back the CSA revenues. The result is a revenue base which  
14 can be applied to CSA-avoided costs. The calculation of the  
15 Revenues is shown on Exhibit WSR-1, page 3 of 3.

16  
17 Q. PLEASE SUMMARIZE YOUR TESTIMONY.

18  
19 A. BellSouth's methodology for calculating the CSA wholesale discount  
20 follows the Commission's original resale discount study. The study  
21 is appropriate to resellers in at least three areas: 1) the study does  
22 not include increases in cost that the Company may incur to serve  
23 resellers; 2) revenues have been adjusted for the average CSA  
24 discount; and 3) the study assumes that resellers will serve average

25

1       revenue customers even though it is likely that high revenue  
2       customers will be targeted.

3

4       This study illustrates that there is a significant difference between  
5       the avoided cost levels, and the subsequent wholesale discount  
6       rate, between general tariffed services and contract service  
7       arrangements. We request that the Commission approve  
8       BellSouth's wholesale discount rate at 8.98% for CSAs.

9

10   Q.    DOES THIS COMPLETE YOUR TESTIMONY?

11

12   A.    Yes.

13

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**SOUTH CAROLINA**

**Calculation of a the Resale Discount for Services Other than CSAs  
 Per the Commission's Order in South Carolina Docket No. 96-358-C**

(000)

<u>COL. 1</u>	<u>COL. 2</u>	<u>COL. 3</u>	
<u>ACCOUNTS DIRECT AVOIDED</u>	<u>1995 REG</u>	<u>AVOIDED AMOUNT</u>	
A/C 6611 PRODUCT MGT.	8,261	2,065	25.00%
A/C 6612 SALES	17,820	16,038	90.00%
A/C 6613 PRODUCT ADV.	7,083	6,673	
A/C 6621 CALL COMPLETION	4,970	1,491	30.00%
A/C 6622 NUMBER SERVICES	10,606	3,182	30.00%
A/C 6623 CUSTOMER SERV.	56,936	37,008	65.00%
TOTAL DIRECT AVOIDED	105,676	66,457	
		<u>ALLOC. AMOUNT</u>	
<u>ACCOUNTS INDIRECTLY AVOIDED</u>			
<u>OVERHEAD ACCOUNTS</u>			
A/C 6711 EXECUTIVE	2,404	248	
A/C 6712 PLANNING	989	102	
A/C 6721 ACCOUNTING & FINANCE	6,779	698	
A/C 6722 EXTERNAL RELATIONS	8,232	848	
A/C 6723 HUMAN RESOURCES	9,760	1,006	
A/C 6724 INFORMATION MGT.	33,692	3,471	
A/C 6725 LEGAL	2,996	309	
A/C 6726 PROCUREMENT	2,161	223	
A/C 6727 RESEARCH & DEV.	1,842	190	
A/C 6728 OTHER GEN. & ADM.	39,938	4,115	
A/C 5301 UNCOLLECTIBLES	6,838	705	
TOTAL OVERHEAD ACCOUNTS	115,631	11,914	
<u>GENERAL SUPPORT ACCOUNTS</u>			
A/C 6121 LAND & BUILDING	17,508	1,804	
A/C 6122 FURN. & ARTWORKS	691	71	
A/C 6123 OFFICE EQPT.	1,588	164	
A/C 6124 GEN. PURPOSE COMP.	18,895	1,947	
TOTAL GENERAL SUPPORT	38,682	3,986	
TOTAL O'HEAD & GEN. SUPPT.	154,313	15,899	
TOTAL DIRECT AVOIDED	66,457		
TOTAL EXPENSES	645,005		
ALLOCATION FACTOR	0.103034		
TOTAL AVOIDED COSTS		82,357	
REVENUES SUBJECT TO DISCOUNT		557,961	
WHOLESALE DISCOUNT		<b>14.8%</b>	



**SOUTH CAROLINA**  
**Calculation of a CSA Resale Discount**

(000)

<u>COL. 1</u>	<u>COL. 2</u>	<u>COL. 3</u>
<u>ACCOUNTS DIRECT AVOIDED</u>	<u>1995 REG</u>	<u>AVOIDED AMOUNT</u>
A/C 6611 PRODUCT MGT.	8,261	191
A/C 6612 SALES	17,820	5,438
A/C 6613 PRODUCT ADV.	7,083	-
A/C 6621 CALL COMPLETION	4,970	-
A/C 6622 NUMBER SERVICES	10,606	-
A/C 6623 CUSTOMER SERV.	56,936	37,008
TOTAL DIRECT AVOIDED	105,676	42,637
<b><u>ACCOUNTS INDIRECTLY AVOIDED</u></b>		<b><u>AVOIDED AMOUNT</u></b>
<b><u>OVERHEAD ACCOUNTS</u></b>		
A/C 6711 EXECUTIVE	2,404	-
A/C 6712 PLANNING	989	-
A/C 6721 ACCOUNTING & FINANCE	6,779	-
A/C 6722 EXTERNAL RELATIONS	8,232	-
A/C 6723 HUMAN RESOURCES	9,760	-
A/C 6724 INFORMATION MGT.	33,692	-
A/C 6725 LEGAL	2,996	-
A/C 6726 PROCUREMENT	2,161	-
A/C 6727 RESEARCH & DEV.	1,842	-
A/C 6728 OTHER GEN. & ADM.	39,938	-
A/C 5301 UNCOLLECTIBLES	6,838	-
TOTAL OVERHEAD ACCOUNTS	115,631	-
<b><u>GENERAL SUPPORT ACCOUNTS</u></b>		
A/C 6121 LAND & BUILDING	17,508	-
A/C 6122 FURN. & ARTWORKS	691	-
A/C 6123 OFFICE EQPT.	1,588	-
A/C 6124 GEN. PURPOSE COMP.	18,895	-
TOTAL GENERAL SUPPORT	38,682	-
TOTAL OVERHEAD & GEN. SUPPT.	154,313	-
 TOTAL AVOIDED COSTS		 42,637
REVENUES SUBJECT TO DISCOUNT		474,600
 CSA WHOLESALE DISCOUNT		 8.98%
(TOTAL AVOIDED COST / REVENUES SUBJECT TO DISCOUNT)		

**Revenues Subject To Discount:**

**SOUTH CAROLINA**  
**Calculation of a CSA Resale Discount**

(000)

From Original Study - Residence	280,695
From Original Study - Business	244,632
Add Back Non-Recurring Revenue	25,557
Add Back Grand Fathered Revenue	2,589
Add Back E911 Revenue	<u>2,265</u>
 Retail Revenues Subject to Resale	 555,738
 CSA Discount	 <u>15%</u>
 Discounted Retail Revenues Subject to Resale	 472,377
 CSA Revenues	 <u>2,223</u>
 Total Revenues Subject to Discount	 <u><u>474,600</u></u>

## **CSA Resale Cost Study BST Methodology**

In Docket No. 96-358-C, the Commission adopted, with some modifications, BellSouth's resale discount methodology as outlined on witness Walter Reid's Exhibit WSR-3. Exhibit WSR-1, page 1 of this testimony, demonstrates the calculation of the resale discount rate of 14.8% as ordered by this Commission. This exhibit was the starting point for the CSA resale study filed herein and represents this Commission's authorized resale discount values as stated in Order No. 97-189 (the "Order"), dated March 10, 1997.

The next step in the calculation of a CSA resale discount was to analyze the expenses which the Commission treated as avoided for tariff services in general to determine if these expenses should also be treated as avoided for CSA. The logic applied here was that pre-sale expenses are necessary for a CSA to exist, whereas, certain post sale expenses may be avoided for a CSA. Exhibit WSR-1, page 2 reflects the results of this study which resulted in a CSA specific discount rate of 8.98%.

Following is an account by account description of this analysis.

For Account 6611 (Product Management) the Commission assigned 25% as the amount of avoided cost. We analyzed each of the job functions included in Account 6611 to classify them into "pre-Sale" and "post-Sale" activities. In the CSA resale study, the result is that approximately \$191 thousand of costs are avoided. The majority of the functions in this account are not avoidable. Pre-sale functions in this account include market management, market research, and supervision and support functions. These activities are necessary in order for the CSA to exist. Exhibit WSR-2, pages 4-8, lists the job functions and their costs for this account and shows how the avoided costs were developed.

For Account 6612 (Sales) the Commission assigned 90% as the amount of avoided cost. BST analyzed complex business activities within this account to determine which activities are performed "pre-sale" and which activities are performed "post-sale" as related to CSAs. This is appropriate because CSAs are only performed for large businesses. The classification of these activities as pre-sale or post-sale are shown on Exhibit WSR-2, page 11. The result is a 34.75% assignment of costs to post-sale. This percentage was applied to the net sales costs shown on Exhibit

WSR-2, pages 9-10, after deducting the costs of directly identified non-avoided functions. The result is \$5.438 million of avoided cost in Account 6612.

For Account 6613 (Product Advertising), the Commission previously accepted the Company's proposal and assigned \$6.673 million of avoided costs. In the previous study, the Company treated as not avoidable only those 1995 expenses related to carrier services, public services and operator services. In this CSA resale study, however, the Company is treating 100% of these expenses as not avoidable due to the fact that all product advertising is performed prior to the CSA being created. Therefore, none of the expenses are avoided.

For Accounts 6621 (Call Completion) and 6622 (Number Services) the Commission assigned 30% of the costs as avoided due to the direct routing of calls to AT&T that was mandated in the Order. In this CSA resale study, the Company is treating 100% of the costs for call completion and number services as not avoidable. Although a CSA customer may switch from BST to AT&T for operator services, this would not result in an avoided cost for BST. Rather, it would result in the loss of the entire line of operator service business for that customer. This does not represent a resale situation for BST.

For Account 6623 (Customer Services) the Commission assigned 65% of the costs as avoided. BST did not revise the avoided amount or percentages for Customer Services expense in the CSA resale study, although clearly additional costs will be incurred to service alternative local exchange companies who resell CSAs.

The treatment of overhead expenses differs in this study from the treatment in the original study. In the original study, overheads were allocated and added to the direct avoided costs. In this study, BST excluded any treatment of overhead costs as avoided because CSA cost studies do not include any amounts for overhead cost when they are calculated. Therefore, no overhead costs should be treated as avoided if CSAs are resold. Uncollectible costs were treated in the same manner as overheads.

Revenues used as the denominator in the calculation are also treated somewhat differently in the CSA resale study. In this study, revenues have been discounted by the effective discount in CSAs excluding the actual CSA revenues. In other words, we deducted CSA revenues from total revenues, discounted the difference by the percentage discount inherent in CSAs, then added back the amount of CSA revenues. The result is a revenue base which can be applied to CSA avoided costs.

STATE OF SOUTH CAROLINA                    )  
   )     CERTIFICATE OF SERVICE  
 COUNTY OF RICHLAND                        )

The undersigned, Nyla M. Laney, hereby certifies that she is employed by the Legal Department for BellSouth Telecommunications, Inc. ("BellSouth") and that she has caused BellSouth Telecommunications, Inc.'s Direct Testimony of Walter S. Reid in Docket No. 98-378-C to be served by placing such in the care and custody of the United States Postal Service, with first-class postage affixed thereto and addressed to the following this September 24, 1998:

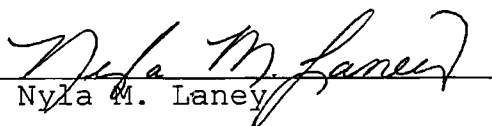
Elliott F. Elam, Jr., Esquire  
 S. C. Department of Consumer Affairs  
 2801 Devine Street  
 Post Office Box 5757  
 Columbia, South Carolina 29250-5757  
 (Consumer Advocate)

F. David Butler, Esquire  
 General Counsel  
 S. C. Public Service Commission  
 Post Office Box 11649  
 Columbia, South Carolina 29211  
 (PSC Staff)

Frank R. Ellerbe, III, Esquire  
 Bonnie D. Shealy  
 Post Office Box 944  
 Columbia, South Carolina 29202  
 (SCCTA)  
 (SECCA)

Russell B. Shetterly, Esquire  
 Haynsworth, Marion, McKay & Guerard, L.L.P.  
 1201 Main Street, Suite 2400  
 Columbia, South Carolina 29201  
 (ACSI, d/b/a e.spire)

Theodore D. Riley, Esquire  
Haynsworth, Marion, McKay & Guerard, L.L.P.  
1201 Main Street, Suite 2400  
Columbia, South Carolina 29201  
(Knology of South Carolina)

  
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Nyla M. Laney